

**DISCLAIMER**

*This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the [Clerk of the Commission, Document Control Center](#).*

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 1, 2002

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

CASE NO. PUE-2001-00306

Ex Parte: In the matter of considering  
requirements relating to wires charges  
pursuant to the Virginia Electric Utility  
Restructuring Act

ORDER ON RECONSIDERATION

On November 19, 2001, the State Corporation Commission ("Commission") entered an Order ("November 19, 2001, Order") in this docket establishing generation market price methodologies for purposes of establishing wires charges for Dominion Virginia Power ("DVP") and Appalachian Power Company, d/b/a American Electric Power ("AEP-VA"). Subsequently, on May 24, 2002, the Commission also entered an order establishing wires charge methodologies for Virginia's electric distribution cooperatives ("Cooperatives").<sup>1</sup>

The November 19, 2001, Order, among other things, directed in Ordering Paragraph five (5) thereof, that incumbent electric utilities seeking to impose wires charges in calendar year 2003 and beyond make annual filings by July 1 of each year for any proposed revisions in their fuel factor, "and

---

<sup>1</sup> A&N Electric Cooperative, BARC Electric Cooperative, Central Virginia Electric Cooperative, Community Electric Cooperative, Craig-Botetourt Electric Cooperative, Mecklenburg Electric Cooperative, Northern Neck Electric Cooperative, Inc., Northern Virginia Electric Cooperative, Powell Valley Electric Cooperative, Prince George Electric Cooperative, Rappahannock Electric Cooperative, Shenandoah Valley Electric Cooperative, and Southside Electric Cooperative, Inc.

corresponding changes in capped rates, and for market price proposals." Ordering Paragraph six (6) of that Order kept this docket open for consideration of other matters concerning market price determinations and wires charges, as they may arise. Also with respect to AEP-VA, the November 19, 2001, Order required AEP-VA to identify transmission costs, on a per kWh basis, paid to third party transmission suppliers, associated with off-system sales sourced by units that would otherwise serve Virginia jurisdictional load.

On July 1, 2002, DVP and AEP-VA both caused to be filed in this docket their proposals and testimony of several witnesses for revisions to market prices for generation and resulting wires charges for calendar year 2003. The Cooperatives also made a filing in this docket on July 1, 2002, addressing market price methodologies for purposes of calculating market prices and resulting wires charges pursuant to § 56-583 of the Virginia Electric Utility Restructuring Act.<sup>2</sup>

On July 16, 2002, the Commission issued an Order setting a procedural schedule and hearing date for the determination of market prices in conjunction with the establishment of wires charges for incumbent electric utilities in calendar year 2003. Cogentrix Energy Inc., the Virginia Committee for Fair Utility Rates ("VCFUR"), the Division of Consumer Counsel of the Office of the Attorney General, and the Virginia Independent Power Producers, Inc., filed notices of participation as respondents in the case. Only VCFUR filed direct testimony and exhibits on August 12, 2002. On August 21, 2002, the Commission Staff ("Staff") filed testimony. On August 28, 2002, DVP and AEP-VA filed rebuttal testimony. The hearing to receive evidence on the market price determination issues was convened at the Commission on September 4, 2002.

---

<sup>2</sup> Title 56, Chapter 23 (§ 56-576 et seq.) of the Code of Virginia, hereinafter referred to as "the Act" or "the Restructuring Act".

On October 11, 2002, the Commission issued a Final Order approving a market price methodology for purposes of establishing wires charges for DVP and AEP-VA ("Final Order"). The Final Order also allowed, but did not require, DVP to include a capacity adder in its proposed market prices for generation pursuant to the method set forth in rebuttal testimony by DVP – and directed DVP to provide notice to the parties, within ten days of the date of the Final Order, as to whether DVP will include a capacity adder in its compliance filing. In addition, the Final Order did not adopt DVP's proposed changes to its Competitive Service Provider Coordination Tariff ("CSP Tariff"), which were related to the proposed capacity adder.

The Final Order also found that AEP-VA failed to meaningfully net transmission revenues that accrue to AEP-VA when a competitive service provider ("CSP") imports power via the AEP-VA transmission system to serve newly won customers in AEP-VA's service territory, and that AEP-VA's transmission cost reduction to market prices is more than 10 times that of DVP's. The Final Order required AEP-VA: (1) to provide a detailed reconciliation of its proposed transmission cost adjustment to that of DVP; (2) to identify the generation resources that would otherwise serve Virginia jurisdictional load; (3) to quantify the transmission expense associated with actual transactions sourced from those units over the most recent 12-month period for which data are available; (4) to account for the revenue flows that arise from those transactions; and (5) to provide a detailed accounting of the transmission revenues that would be collected from transmission customers in the event that an AEP-VA customer elected to take service from a CSP.

On October 21, 2002, DVP filed a Notice of Intent to Include Capacity Adder and Petition for Reconsideration ("DVP Petition"), wherein DVP notified the Commission and the parties that it will include the capacity adder in its calculation of market prices for generation. The DVP Petition seeks

reconsideration for purposes of modifying its CSP Tariff to require CSPs to provide 60 days' notice of large loads returning to DVP's capped rate service. DVP defines large loads, or a large volume of customer activity, as greater than or equal to 1 MW. DVP states that adequate advance notice and the opportunity to sell displaced power go "hand in hand" with the capacity adder. DVP Petition at 5. DVP asserts, among other things, that it will not have "an opportunity for revenue neutrality if the capacity adder is included – as it will be – and [DVP] has to always set aside capacity because of the possibility that CSPs will drop large volumes of load back on [DVP] with as little as 15 days notice under the current rules." Id. at 4. Moreover, DVP contends that the 60-day notice provision "will ensure it of access to only the last of the three [PJM capacity] auctions," such that it is "assuming the risk that the capacity clearing price determined by the third auction may be less than the weighted average of all three auctions." Id.

On October 25, 2002, AEP-VA filed a Petition for Reconsideration and Modification of the Commission's 2002 Final Order of October 11, 2002 ("AEP-VA Petition"). AEP-VA requests that the Commission "modify and rescind the November 1, 2002 filing requirements pertaining to [AEP-VA's] as-filed transmission cost adjustment in this proceeding." AEP-VA Petition at 5. The AEP-VA Petition asserts, among other things, that AEP-VA "used the same methodology it had employed in its previous compliance filing to calculate the transmission cost adjustment to its proposed market prices," that Staff did not contest AEP-VA's previous compliance filing, and that neither Staff nor any party to this case contested its transmission cost adjustment in this proceeding. Id. 3-4. AEP-VA also contends that "no party to this proceeding has provided any evidentiary support for using any other transmission cost adjustment to calculate [AEP-VA's] 2003 wires charges...." Id. at 4.

On October 30, 2002, AEP-VA filed a letter ("AEP-VA Letter") "to notify the Commission, its Staff and the parties that, based on preliminary calculations made in preparation of the compliance filing, [AEP-VA] will forego any wires charges for the year 2003." AEP-VA Letter at 1. AEP-VA also notes that questions regarding its transmission cost adjustment were raised at the hearing and asserts that its transmission cost calculations for 2004 will need to be revised as a result of becoming a member of the PJM regional transmission organization. AEP-VA states that "[i]n addition to foregoing any wires charges in 2003, [AEP-VA] commits to discuss with the Commission's Staff, prior to the Company's next wires charge report, the appropriate methodology to develop its transmission cost adjustment to market prices for 2004." AEP-VA Letter at 1-2.

NOW THE COMMISSION, upon consideration of the pleadings, the record, and the applicable law, is of the opinion and finds as follows. We deny DVP's request for reconsideration. As explained in our Final Order, the inclusion of changes to the CSP Tariff at this stage of the proceeding, i.e., in rebuttal and on reconsideration, has precluded a full evaluation of such changes by persons who may be interested in the same. We have not determined that DVP's proposed tariff changes are unreasonable. Rather, the potential impact of such changes has not been fully assessed in this case.<sup>3</sup> As we referenced in our Final Order, DVP is not precluded from proposing risk mitigation measures, including tariff modifications, in future proceedings if such measures are shown to be necessary.

We grant in part AEP-VA's request for reconsideration. AEP-VA has notified the Commission and the parties to this case that it will not assess wires charges during 2003. As a result, the transmission cost adjustment filing requirements necessary to establish wires charges for AEP-VA for

2003 are no longer necessary. Accordingly, we vacate all of the November 1, 2002, filing requirements of AEP-VA contained in our Final Order related to transmission cost adjustments.

We direct, however, AEP-VA's July 1, 2003, report regarding wires charges for 2004 to include all of the information related to transmission cost adjustments set forth on page 13 of our Final Order. As explained in both the November 19, 2001, Order and the October 11, 2002, Order, § 56-583 A of the Act requires the Commission to adjust market prices for the net cost of transmission required to send displaced power to distant wholesale markets.<sup>4</sup> To do this, the Commission must identify the transmission costs for the relevant utility to transmit power to the wholesale market and offset those costs by the transmission revenues that will be realized by the incumbent utility when it sells transmission service to a CSP that now serves the incumbent's former customers. Based on Attachment 1 and Attachment 5 to AEP-VA's July 1, 2002, filing, as well as the testimony of AEP-VA witness Kelly D. Pearce, AEP-VA provided neither in this case. AEP-VA witness Pearce recognized that actual transmission expenditures have not been provided. Instead, Mr. Pearce characterizes the data provided in Attachment 5 as "hypothetical based on a test year of 1996." Tr. at 169-170. Moreover, the data in Attachment 5 are not the transmission costs paid by AEP-VA to transmit power to distant wholesale markets. Rather, Attachment 5 represents an approximation of the cost of serving AEP-VA's Virginia jurisdictional load under certain provisions of AEP-VA's Open Access Transmission Tariff. AEP-VA next subtracts the class specific per kWh values calculated in Attachment 5 – without

---

<sup>3</sup> As a result, section 6.8 of DVP's CSP Tariff retains the existing 30-day notice requirement, on a best efforts basis, for CSPs initiating a large volume of customer activity that may impact DVP's resources or its ability to meet its obligation to serve its customers.

<sup>4</sup> Section 56-583 A states that projected market prices "shall be adjusted for any projected cost of transmission, transmission line losses, and ancillary services subject to the jurisdiction of the Federal Energy Regulatory

adjustment – from the loss and load-factor adjusted market price yielding a transmission cost adjusted market price.

As for the offsetting or netting of transmission expense with transmission revenues otherwise recovered in rates subject to state or federal jurisdiction, Attachment 1 demonstrates that AEP-VA has included no offset to, or netting of, the transmission cost reductions to market price developed in Attachment 5 even though AEP-VA Witness Pearce agrees that transmission expenditures need to be reduced by transmission revenues. Tr. at 174. Other portions of the record developed in this proceeding further demonstrate that AEP-VA has not netted its transmission costs by transmission revenues. Rather, according to Mr. Pearce, it appears that AEP-VA concluded that the expected transmission revenues would be offset by certain third party transmission expenses and, as a result, the transmission revenues were not included in AEP-VA's transmission cost calculations in this case. Tr. at 171-72. Neither the expected transmission revenues, nor the offsetting third party expense referred to by Mr. Pearce, however, are part of the record in this proceeding. Moreover, Mr. Pearce did not testify that these two numbers were equal; he stated that such were "close to the same numbers," "relatively offsetting," and "somewhat offsetting." Tr. at 171-73. Thus, AEP-VA proposed a transmission cost adjustment to market price based on an approximation of retail delivery costs instead of the cost of delivering power to distant wholesale markets. Furthermore, AEP-VA's proposed transmission cost adjustment does not include offsetting revenues as required by § 56-583 A.

We note that AEP-VA did not assess any wires charges in 2002. We also recognize that in its Petition for Reconsideration, AEP-VA states that it relied on certain exchanges of information with the

---

Commission which the incumbent electric utility (i) must incur to sell its generation and (ii) cannot otherwise recover in rates subject to state or federal jurisdiction.”

Staff as evidence that it was in compliance with the November 19, 2001, Order. As such, in its July 1, 2002, submittal, AEP-VA calculated a transmission cost adjustment using an identical method. AEP-VA's reliance on the Staff's views regarding wires charges for 2002, however, does not alter the statutory requirements that must be met before we may permit AEP-VA to assess a wires charge. Before we can approve a wires charge for AEP-VA, this Commission must have net transmission costs that reflect the real cost of delivering power from generating units that would otherwise serve AEP-VA's retail customers adjusted for transmission revenues otherwise recovered in rates subject to state or federal jurisdiction. Simply put, we cannot approve a wires charge where the record does not demonstrate that the statutory requirements of § 56-583 A have been met.

Thus, as stated above, AEP-VA's July 1, 2003, report regarding wires charges for 2004 shall include all of the information related to transmission cost adjustments as set forth on page 13 of our Final Order. We note, however, that AEP-VA states its transmission cost calculations for 2004 will need to be revisited as a result of becoming a member of the PJM regional transmission organization. AEP-VA Letter at 1. We recognize that with the evolution of matters such as regional transmission organizations and standard market designs, modifications to the informational requirements on page 13 of our Final Order may be warranted. For example, in the event AEP-VA seeks and obtains Commission approval pursuant to § 56-579 of the Act to transfer ownership, control, or responsibility to operate its transmission system, different information may be appropriate for developing AEP-VA's transmission cost adjustment. AEP-VA should provide the information set forth on page 13 of our Final Order, unless subsequently modified by order of the Commission.



Finally, we will extend the November 1, 2002, filing date for DVP and AEP-VA referenced in Ordering Paragraph two (2) of the Final Order. We also require such filings to include class specific wires charge calculations and delivery tariffs effective January 1, 2003.

Accordingly, IT IS ORDERED THAT:

- (1) DVP's Petition for Reconsideration is denied as discussed herein.
- (2) AEP-VA's Petition for Reconsideration is granted in part as discussed herein.
- (3) Ordering Paragraph two (2) of the Final Order in this case dated October 11, 2002, is modified such that on or before November 8, 2002, DVP shall file a report showing the results of its base market price calculations and authorized adjustments, with supporting data, and after load shaping for each rate class, the rate class specific market prices for generation, and class specific wires charges and delivery tariffs effective January 1, 2003.
- (4) Ordering Paragraph two (2) of the Final Order in this case dated October 11, 2002, is modified such that on or before five business days after the Commission issues an order in Case No. PUE-2002-00378 establishing AEP-VA's fuel factor, AEP-VA shall file a report showing the results of its base market price calculations and authorized adjustments, with supporting data, and after load shaping for each rate class, the rate class specific market prices for generation, and class specific wires charges and delivery tariffs effective January 1, 2003. AEP-VA's report shall not have to include the filing requirements and supporting data required by our Final Order related to AEP-VA's transmission cost adjustments, and AEP-VA's delivery tariffs shall reflect zero wires charges.
- (5) This docket shall remain open for the receipt of reports to be filed herein and for consideration of other matters concerning market price determination and wires charges, as they may arise.